

**REPORT
TO THE LEGISLATURE
ON THE
CASE MANAGEMENT,
INFORMATION AND PAYROLLING
SYSTEM II**

September 2014

State of California
Office of Systems Integration
&
California Department of Social Services

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REPORT MANDATE

As defined in supplemental reporting language to the Fiscal Year 2012-13 budget, the Case Management Information and Payrolling System II must provide to the Budget Committees of the Legislature a report with information related to performance and recent delays.

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I. Executive Summary

This is a final report to the Budget Committees of the Legislature on the Case Management Information and Payrolling System (CMIPS) II Project.

CMIPS is the automated system that handles payroll functions for In-Home Supportive Services (IHSS) providers. CMIPS was in operation for more than 30 years and became outdated. It was unable to support many of the major technical or functional modifications necessary to support new legislation and growing caseloads. CMIPS was determined to be at a high risk of failure if substantially enhanced. In 1997, the State began the process of procuring and developing a more modern CMIPS II system. The contract to develop CMIPS II was awarded to the prime vendor, Hewlett Packard (HP), on March 31, 2008, after a competitive bidding process was conducted.

This report provides an update on the following project issues detailed in the previous report to the Legislature, dated January 2014:

- **CMIPS II Development Delay in FY 2011-12**
During FY 2011-12, CMIPS II had an eight-month delay to planned pilot activities, from November 28, 2011, to July 31, 2012. The project was able to recover one month for the implementation rollout resulting in a total design, development and implementation (DD&I) period extension of seven months.
- **Extension of Project Schedule in FY 2012-13**
During FY 2012-13, the CMIPS II schedule was further extended by five months. The pilot implementation was extended by three months, from December 2012 to March 2013, to address then-known system and process deficiencies. An additional two-month delay, to reduce the risk of implementing during the quarter-end window, resulted in the shift of the implementation of county groups 3 and 4 to September 3, 2013, and November 4, 2013, respectively.

After the implementation delays that began in 2011, county implementations then resumed in July 2012, and concluded in November 2013.

The CMIPS II application was successfully operating statewide in all 58 counties beginning November 4, 2013.

II. Contractual Claims and Disputes

In March of 2008, the Health and Human Services Agency, Office of Systems Integration (OSI, or state) and HP entered into three interrelated contracts for CMIPS II. Under Contract 18103, HP agreed to design, develop and implement CMIPS II; under Contract 18104, HP agreed to maintain and operate the system; and under Contract 18105, HP agreed to provide, install, operate and maintain certain hardware and software products integral to the CMIPS information technology environment.

For planning purposes, the project was divided into two major phases: the DD&I phase, and the maintenance and operations (M&O) phase. The DD&I phase started at contract award and concluded with the state's acceptance of the CMIPS II production application, as measured by the approval of the "Post Statewide Implementation

Review” deliverable. The DD&I contract (18103) included the cost of all system DD&I deliverables as well as a performance bond. Payments were scheduled to occur on HP’s achievement of contractually prescribed milestones. Payments by the state were subject to a 10% withhold, payable “upon successful completion of the entire DD&I phase as measured by the Post Statewide Implementation Review.” HP requested permission to invoice the state for the 10% withhold amount under the DD&I contract. However, the state did not allow HP to invoice for the withhold because both parties were making conflicting monetary claims and offsets. These claims reflected the alleged financial impact on HP and/or the state resulting from, among other things, (i) project design, approval or implementation delays; (ii) the demand for or provision of additional products or services; and (iii) expansions in the scope of work that had occurred during the DD&I phase. In the meantime, the M&O phase had started. During the DD&I phase, the parties agreed to defer resolution of the DD&I claims to the conclusion of the DD&I phase.

The state and HP had four specific contractual disputes. As these claims developed during the DD&I phase, the parties tentatively agreed to settle them at the point at which the system was fully implemented in January of 2014. This allowed the parties to direct their full attention toward the delivery of a completed CMIPS II system.

HP cited four separate components to these claims:

- In 2009, the general system design schedule was extended to allow for system changes and changes to the roll-out plan for the project pilot and the series of county-group implementations that followed the pilot. HP claimed that the cost of the delay resulting from the state’s changes to the roll-out plan was approximately \$1.3 million, while the state claimed that it partially mitigated that loss with a scope reduction resulting in cost savings to HP valued at approximately \$500,000.
- In 2010, numerous system change requests caused another schedule extension. HP claimed that \$2.7 million in charges remained unpaid by the state, while the state cited offsetting payments for individually charged system change requests. HP claimed that its total cost for the schedule extension was provided to the state in separate documentation, that the state did not respond to that documentation, and that the state’s demand to proceed under an “emergency work authorization”, as provided for under the contract, did not address HP’s outstanding claim.
- In 2010, a schedule extension was caused by, among other things, a major legislative change (AB1612). HP claimed that the total cost of this extension was \$32 million, of which the state paid only \$16 million.
- In 2011 and 2012, system roll-out was delayed for seven months due, in part, to data conversion and related issues that the state alleged were caused by HP. The state claimed compensatory damages for carrying costs in the amount of \$10.3 million and gave notice of its intention to offset that claim against the 10% DD&I withhold, valued at \$10.9 million. HP notified the state that it intended to

pursue its own delay claim for that same period, alleging that the delay was caused by the state and not HP.

III. Dispute Resolution

In January 2014, the CMIPS II project transitioned into the M&O phase. Unresolved claims and contract disputes related to the DD&I phase required significant state staff hours and increasingly threatened project timelines and success. Thus, the parties resolved the DD&I claims, including those related to the development delays and project schedule extension detailed in the previous report to the Legislature, and executed a Settlement Agreement dated July 29, 2014.

The state accepted HP's offer to waive its claims in exchange for the state's withdrawal of its claim against the DD&I 10% withhold. The Settlement Agreement released a previously approved and budgeted amount of \$10,966,624 to HP, as planned and scheduled in the CMIPS II project plans and the CMIPS II contracts. This action did not cost the state any additional funds beyond the amount previously approved in the CMIPS II project documents approved by the Department of Technology / Department of Finance and appropriated by the Legislature.

IV. Summary / Conclusion

The state utilized contractual processes to achieve a mutually agreeable outcome with the vendor that avoided a lengthy dispute process, potential litigation and, instead, focused on the mutual benefits of enhancing the IHSS program and serving the citizens of the State of California.